3 Reasons to Own Gildan Activewear Inc.

Description

If you're a fan of country music, a reason to own **Gildan Activewear Inc.** (TSX:GIL)(NYSE:GIL) stock is that Blake Shelton promotes its products in TV commercials here in Canada and the U.S.

I'm sure there are still people in both countries watching Shelton's commercials who have no idea about the Gildan name. For them, it's still probably Fruit of the Loom, Hanes, or Jockey. But seriously, this is a testament to how far Gildan has come in the highly competitive world of undergarments. Gildan is all grown up and befitting a celebrity of Shelton's stature.

Gildan is currently the subject of a mini-tender offer from TRC Capital Corporation, which seeks to buy up three million shares, or 1.3%, of its stock at $37 per share. When the offer first came out at the end of August, Gildan's shares were trading around $39. They've since dropped a couple of dollars and sit slightly above TRC's offer price.

Gildan recommended at the time that shareholders reject the offer. Nothing has changed in the two weeks since that should get you to change your mind.

If you own Gildan stock, keep holding. If you don't, here are three reasons to own its stock.

Reason #1

The company has a four-pronged approach to growth:

- It continues to penetrate the printwear market.
- It continues to penetrate the retail market.
- It is increasing capacity while reducing costs.
- It is making strategic acquisitions to complement its organic growth.

At the end of July, it announced that it was paying $55 million to acquire Peds Legwear Inc., a North Carolina company that's leading the way in the legwear industry. Currently generating about $80million in annual revenue, Gildan provides the brand with instant distribution to its network ofcustomers, while Peds brings an entree into the footwear industry. It's a win/win for both companies.

In June it closed a $110 million acquisition in which it acquired Alstyle Apparel, LLC, a t-shirt and fleece manufacturer that sells $180 million annually to both the printwear and branded apparel markets. One of the benefits resulting from this particular deal is that Alstyle comes with a plant in Mexico. As a result, Gildan's capital expenditures will be between $25 and $50 million less in 2016 than its original estimate of $200 million.

These two tuck-in acquisitions address all four of its growth strategies without breaking the bank. Representing less than 6% of its total assets, these deals add value to the business without overleveraging its balance sheet. By the end of 2018, they should add 13 cents per share in earnings from integration synergies.

Reason #2

Up until the second quarter ended June 30, Gildan had very little long-term debt—approximately $375 million at the beginning of the year. In the second quarter it entered into a $300 million five-year-term loan, and at the end of July after the end of the quarter it sold $300 million in seven-year and 10-year unsecured notes.

It now has a little over $1 billion in long-term debt, which still only represents 29% of its $3.4 billion in total assets. In comparison, **Hanesbrands Inc.** (NYSE:HBI) currently has $3.5 billion in long-term debt, which represents 53% of total assets.

The big advantage for Gildan is its cash flow.

While Hanesbrands generated negative cash from operations (-$129 million) in its first six months of fiscal 2016, Gildan delivered $141 million in positive cash from operations.

It has less debt but better cash flow. It's a nice problem to have.

Reason #3

In the second quarter, not only did Gildan complete its normal course issuer bid, but it added 3.5% to its terms of purchase with the TSX. It can now repurchase an additional 8.5 million shares of its stock over the second half of the year.

I'm normally not a fan of share repurchases, but given that it raised so much debt in recent months and its capital expenditures in 2016 are going to be lower than first expected, I think this is a smart allocation of capital and a sign to investors that it thinks $37 is cheap.

I think they're right.

Bottom line

If you're a value investor I'm not so sure you're going to take a shine to Gildan stock. However, if you buy quality companies at fair prices, then Gildan is probably more your speed. And heck, you get Blake Shelton to boot.

CATEGORY

1. Investing

TICKERS GLOBAL

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